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of the State of California  
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Lead Supervising Deputy Attorney General  
3 KENT D. HARRIS, State Bar No. 144804  
Deputy Attorney General  
4 California Department of Justice  
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7 Attorneys for Complainant

8  
9 **BEFORE THE**  
**CALIFORNIA BOARD OF ACCOUNTANCY**  
**DEPARTMENT OF CONSUMER AFFAIRS**  
10 **STATE OF CALIFORNIA**

11 In the Matter of the Accusation Against:

Case No. AC-2007-10

12 JOHN D. ABREU  
13 P.O. Box 1789  
Alturas, California 96101

**STIPULATED SETTLEMENT AND  
DISCIPLINARY ORDER**

14 Certified Public Accountant License No. 13696

15 Respondent.  
16

17  
18 IT IS HEREBY STIPULATED AND AGREED by and between the parties to the  
19 above-entitled proceedings that the following matters are true:

20 PARTIES

21 1. Carol Sigmann (Complainant) is the Executive Officer of the California  
22 Board of Accountancy. She brought this action solely in her official capacity and is represented  
23 in this matter by Edmund G. Brown Jr., Attorney General of the State of California, by Kent D.  
24 Harris, Deputy Attorney General.

25 2. Respondent John D. Abreu (Respondent) is represented in this proceeding  
26 by attorney Karen L. Bae, whose address is 88 Kearney Street, 10th Floor, San Francisco,  
27 California 94108.

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3. On or about April 19, 1968, the California Board of Accountancy issued Certified Public Accountant License No. 13696 to John D. Abreu (Respondent). The License was in full force and effect at all times relevant to the charges brought in Accusation No. AC-2007-10 and will expire on November 30, 2007, unless renewed.

## JURISDICTION

4. Accusation No. AC-2007-10 was filed before the California Board of Accountancy (Board), Department of Consumer Affairs, and is currently pending against Respondent. The Accusation and all other statutorily required documents were properly served on Respondent on December 1, 2006. Respondent timely filed his Notice of Defense contesting the Accusation. A copy of Accusation No. AC-2007-10 is attached as exhibit A and incorporated herein by reference.

## ADVISEMENT AND WAIVERS

5. Respondent has carefully read, fully discussed with counsel, and understands the charges and allegations in Accusation No. AC-2007-10. Respondent has also carefully read, fully discussed with counsel, and understands the effects of this Stipulated Settlement and Disciplinary Order.

6. Respondent is fully aware of his legal rights in this matter, including the right to a hearing on the charges and allegations in the Accusation; the right to be represented by counsel at his own expense; the right to confront and cross-examine the witnesses against him; the right to present evidence and to testify on his own behalf; the right to the issuance of subpoenas to compel the attendance of witnesses and the production of documents; the right to reconsideration and court review of an adverse decision; and all other rights accorded by the California Administrative Procedure Act and other applicable laws.

7. Respondent voluntarily, knowingly, and intelligently waives and gives up each and every right set forth above.

## CULPABILITY

8. Respondent admits the truth of each and every charge and allegation in Accusation No. AC-2007-10.

9. Respondent agrees that his Certified Public Accountant License is subject to discipline and he agrees to be bound by the Board's imposition of discipline as set forth in the Disciplinary Order below.

## CONTINGENCY

10. This stipulation shall be subject to approval by the California Board of Accountancy. Respondent understands and agrees that counsel for Complainant and the staff of the California Board of Accountancy may communicate directly with the Board regarding this stipulation and settlement, without notice to or participation by Respondent or his counsel. By signing the stipulation, Respondent understands and agrees that he may not withdraw his agreement or seek to rescind the stipulation prior to the time the Board considers and acts upon it. If the Board fails to adopt this stipulation as its Decision and Order, the Stipulated Settlement and Disciplinary Order shall be of no force or effect, except for this paragraph, it shall be inadmissible in any legal action between the parties, and the Board shall not be disqualified from further action by having considered this matter.

11. The parties understand and agree that facsimile copies of this Stipulated Settlement and Disciplinary Order, including facsimile signatures thereto, shall have the same force and effect as the originals.

12. In consideration of the foregoing admissions and stipulations, the parties agree that the Board may, without further notice or formal proceeding, issue and enter the following Disciplinary Order:

## DISCIPLINARY ORDER

IT IS HEREBY ORDERED that Certified Public Accountant License No. 13696 issued to Respondent John D. Abreu is revoked. However, the revocation is stayed and Respondent is placed on probation for three (3) years on the following terms and conditions:

1. **Actual Suspension.** Certified Public Accountant License No. 13696 issued to John D. Abreu is suspended for sixty (60) days. During the period of suspension the Respondent shall engage in no activities for which certification as a Certified Public Accountant or Public Accountant is required as described in Business and Professions Code, Division 3,

Chapter 1, Section 5051.

2. **Obey All Laws.** Respondent shall obey all federal, California, other states' and local laws, including those rules relating to the practice of public accountancy in California.

3. **Submit Written Reports.** Respondent shall submit, within ten (10) days of completion of the quarter, written reports to the Board on a form obtained from the Board. The Respondent shall submit, under penalty of perjury, such other written reports, declarations, and verification of actions as are required. These declarations shall contain statements relative to Respondent's compliance with all the terms and conditions of probation. Respondent shall immediately execute all release of information forms as may be required by the Board or its representatives.

4. **Personal Appearances.** Respondent shall, during the period of probation, appear in person at interviews/meetings as directed by the Board or its designated representatives, provided such notification is accomplished in a timely manner.

5. **Comply With Probation.** Respondent shall fully comply with the terms and conditions of the probation imposed by the Board and shall cooperate fully with representatives of the Board of Accountancy in its monitoring and investigation of the Respondent's compliance with probation terms and conditions.

6. **Practice Investigation.** Respondent shall be subject to, and shall permit, practice investigation of the Respondent's professional practice. Such a practice investigation shall be conducted by representatives of the Board, provided notification of such review is accomplished in a timely manner.

7. **Comply With Citations.** Respondent shall comply with all final orders resulting from citations issued by the Board of Accountancy.

8. **Tolling of Probation For Out-of-State Residence/Practice.** In the event Respondent should leave California to reside or practice outside this state, Respondent must notify the Board in writing of the dates of departure and return. Periods of non-California residency or practice outside the state shall not apply to reduction of the probationary period, or

1 of any suspension. No obligation imposed herein, including requirements to file written reports,  
2 reimburse the Board costs, or make restitution to consumers, shall be suspended or otherwise  
3 affected by such periods of out-of-state residency or practice except at the written direction of the  
4 Board.

5           **9. Violation of Probation.** If Respondent violates probation in any respect,  
6 the Board, after giving Respondent notice and an opportunity to be heard, may revoke probation  
7 and carry out the disciplinary order that was stayed. If an accusation or a petition to revoke  
8 probation is filed against Respondent during probation, the Board shall have continuing  
9 jurisdiction until the matter is final, and the period of probation shall be extended until the matter  
10 is final.

11           **10. Completion of Probation.** Upon successful completion of probation,  
12 Respondent's license will be fully restored.

13           **11. Restricted Practice: No Audits.** Respondent shall be **permanently**  
14 **prohibited from performing audits.** Probation on this condition shall continue until such time,  
15 if ever, respondent successfully petitions the Board for the reinstatement of his ability to perform  
16 audits. Respondent understands and agrees that the Board is under no obligation to reinstate  
17 respondent's ability to perform audits, that the Board has made no representations concerning  
18 whether any such reinstatement might occur, and that the decision to reinstate is within the sole  
19 discretion of the Board.

20           **12. Active License Status.** Respondent shall at all times maintain an active  
21 license status with the Board, including during any period of suspension. If the license is expired  
22 at the time the Board's decision becomes effective, the license must be renewed within 30 days of  
23 the effective date of the decision.

24           **13. Cost Reimbursement.** Respondent shall reimburse the Board \$ 5,538.70  
25 for its investigation and prosecution costs. The payment shall be made in quarterly payments  
26 (due with quarterly written reports), the final payment being due no later than six (6) months  
27 before probation is scheduled to terminate.


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DATED: 29.07

I have read and fully discussed with Respondent John D. Abreu the terms and conditions and other matters contained in the above Stipulated Settlement and Disciplinary Order. I approve its form and content.

DATED: 2/14/07

  
KAREN L. BAE  
Attorney for Respondent

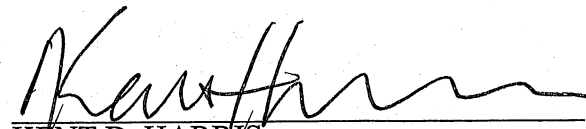
1 ENDORSEMENT

2 The foregoing Stipulated Settlement and Disciplinary Order is hereby respectfully  
3 submitted for consideration by the California Board of Accountancy of the Department of  
4 Consumer Affairs.

5 DATED: 2/21/07  
6

7 EDMUND G. BROWN JR., Attorney General  
of the State of California

8 ARTHUR D. TAGGART  
9 Lead Supervising Deputy Attorney General

10   
11 KENT D. HARRIS  
12 Deputy Attorney General

13 Attorneys for Complainant  
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15 Matter ID Number: 03541110-SA2006102798  
16 Abreu revised stip 3.wpd  
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**BEFORE THE  
CALIFORNIA BOARD OF ACCOUNTANCY  
DEPARTMENT OF CONSUMER AFFAIRS  
STATE OF CALIFORNIA**

In the Matter of the Accusation Against:

Case No. AC-2007-10

JOHN D. ABREU  
P.O. Box 1789  
Alturas, California 96101

Certified Public Accountant License No. 13696

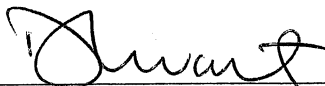
Respondent.

**DECISION AND ORDER**

The attached Stipulated Settlement and Disciplinary Order is hereby adopted by the California Board of Accountancy, Department of Consumer Affairs, as its Decision in this matter.

This Decision shall become effective on April 29, 2007.

It is so ORDERED March 30, 2007.



FOR THE CALIFORNIA BOARD OF ACCOUNTANCY  
DEPARTMENT OF CONSUMER AFFAIRS



**Exhibit A**

**Accusation No. AC-2007-10**

1 BILL LOCKYER, Attorney General  
of the State of California  
2 KENT D. HARRIS, State Bar No. 144804  
Deputy Attorney General  
3 California Department of Justice  
1300 I Street, Suite 125  
4 P.O. Box 944255  
Sacramento, CA 94244-2550  
5 Telephone: (916) 324-7859  
Facsimile: (916) 327-8643  
6  
7 Attorneys for Complainant

8 **BEFORE THE**  
**CALIFORNIA BOARD OF ACCOUNTANCY**  
9 **DEPARTMENT OF CONSUMER AFFAIRS**  
10 **STATE OF CALIFORNIA**

11 In the Matter of the Accusation Against:

Case No. AC-2007-10

12 JOHN D. ABREU  
13 P.O. Box 1789  
Alturas, California 96101

**A C C U S A T I O N**

14 Certified Public Accountant Certificate No.  
15 13696

Respondent.

16  
17 Complainant alleges:

18 **PARTIES**

19 1. Carol Sigmann (Complainant) brings this Accusation solely in her official  
20 capacity as the Executive Officer of the California Board of Accountancy, Department of  
21 Consumer Affairs.

22 2. On or about April 19, 1968, the California Board of Accountancy issued  
23 Certified Public Accountant Certificate Number 13696 to John D. Abreu (Respondent). The  
24 Certified Public Accountant Certificate was in full force and effect at all times relevant to the  
25 charges brought herein and will expire on November 30, 2007, unless renewed.

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4. Section 5100 states in pertinent part:

"After notice and hearing the board may revoke, suspend or refuse to renew any permit or certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing with Section 5080), or may censure the holder of that permit or certificate for unprofessional conduct which includes, but is not limited to, one or any combination of the following causes:

5. Section 5062 of the Code provides that a licensee shall issue a report which conforms to professional standards upon completion of a compilation, review or audit of financial statements.

## FACTS

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1           8.     The restatement and subsequent investigation disclosed a number of  
2 errors by respondent as set forth below.

3                           **FIRST CAUSE FOR DISCIPLINE**

4                           **(Gross Negligence in the Practice of Public Accountancy)**

5           9.     Respondent is subject to disciplinary action under section 5100(c) in that  
6 he committed acts, (both individually and in their totality), of gross negligence in the practice of  
7 public accountancy in auditing the financial statements of Western Sierra Medical Clinic, Inc. for  
8 the period ending December 31, 2004, as follows:

9     **Independent Auditors' Report:**

10                   a. The independent auditor's report did not reference "Government  
11 Auditing Standards" (GAS), although a GAS report entitled "Report on Compliance with  
12 Internal Control" was presented.

13                   b. A "Supplementary Statement of Activities" was presented. However,  
14 expenditures were not presented based on functional classification, such as program and  
15 supporting activities.

16                   c. The change in net assets on the "Statement of Activities" was not  
17 reported by the three classes of net assets (permanently restricted, temporarily restricted, and  
18 unrestricted)."

19                   d. The "Statement of Financial Position" improperly classified Board  
20 designated endowment funds totaling \$97,083 as restricted net assets. As a result, unrestricted  
21 net assets were understated by \$97,083 and restricted net assets were overstated by the same  
22 amount.

23                   e. The "Independent Auditor's Report" had an unqualified opinion while  
24 material portions of the financial statement had not been audited. The auditor's report was not  
25 qualified for scope limitations related to inventory observation and confirmation of accounts  
26 receivable.

27                           1. The respondent did not observe the physical inventory count,  
28 perform alternative procedures to validate the inventory quantity or document a justification for

1 not following GAAS.<sup>1/</sup> The amount of \$15,652 was identified as the materiality amount for the  
2 2004 audit. The inventory balance at 6/30/2004 was \$47,076. Therefore it was a "material"  
3 amount.

4 2. The respondent did not confirm material amounts of accounts  
5 receivable or validate the amounts through alternative procedures.

6 3. The respondent did not obtain and audit the underlying  
7 supporting documents for material categories of assets, liabilities, revenue, and expenses.

8 f. The financial statements and notes to financial statements contained the  
9 following inaccuracies:

10 1. The payables shown on the "Statement of Financial Position"  
11 were understated by \$19,693 as identified in the subsequent auditor's restatement.

12 2. Net assets shown as \$651,321 on the "Statement of Financial  
13 Position" did not reconcile to net assets shown as \$624,665 on the "Statement of Activities".

14 3. Note 1L stated "This reclassification had no effect on the  
15 change in net assets for the year ended December 31, 2004" with regard to SFAS No. 116<sup>2/</sup> and  
16 SFAS No. 117. This information had no relevance to the 2004 audit. The information was  
17 applicable only to the first year transition of SFAS No. 116 and SFAS No. 117 that occurred in  
18 1999.

19 4. Note 11 "Prior Year Correction" stated that land transactions  
20 occurred in 1993 and 1994. According to the respondent's working papers, the land transactions  
21 actually occurred in 2003 and 2004.

22 **AUDIT WORK PAPERS**

23 g. The respondent had no written audit programs.

24 h. There was no documentation that the audit had been adequately  
25 planned. The respondent did not document the following:

- 26 \_\_\_\_\_
- 27 1. "GAAS" stands for "Generally Accepted Auditing Standards".
- 28 2. "SFAS" stands for "Statement of Financial Accounting Standards".

- 1 1. Analytical procedures in the planning of the audit or in the  
2 overall review stage.
- 3 2. Consideration of audit risk and a preliminary judgement about  
4 materiality.
- 5 3. Assessment of the risk of material misstatement due to fraud.
- 6 i. With the exception of an undated, one-page description of the accounts  
7 receivable procedures , there was no documentation of the auditor's understanding of the entity's  
8 internal control.
- 9 j. The respondent did not assess control risk.
- 10 k. The respondent did not obtain sufficient competent evidentiary matter.
- 11 The work papers do not include the auditing procedures applied, the testing performed, or  
12 evidence that an audit was performed for material account classes and transaction cycles.
- 13 l. There was no evidence that the respondent audited contracts or grant  
14 agreements that had a direct and material effect on the determination of financial statement  
15 amounts or other financial data significant to the audit objectives.

16 **SECOND CAUSE FOR DISCIPLINE**

17 **(Report Failed to Conform to Professional Standards)**

18 10. Respondent is further subject to disciplinary action under section 5062  
19 for failure to produce an audit report which conformed to professional standards as set forth  
20 above in the First Cause of Action.

21 **THIRD CAUSE FOR DISCIPLINE**

22 **(Performance of the Audit Failed to Conform to Professional Standards)**

23 11. Respondent is further subject to disciplinary action under Title 16  
24 California Code of Regulations Section 58, for failure to perform an audit which conformed to  
25 professional standards as set forth above in the First Cause of Action.

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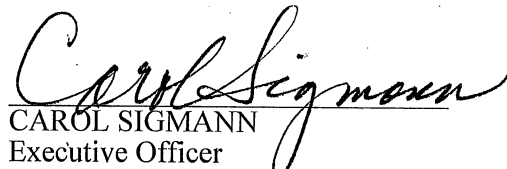
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PRAYER

WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged, and that following the hearing, the California Board of Accountancy issue a decision:

1. Revoking, suspending, or otherwise imposing discipline upon Certified Public Accountant License Number 13696, issued to John D. Abreu;
2. Ordering John D. Abreu to pay the California Board of Accountancy the reasonable costs of the investigation and enforcement of this case, pursuant to Business and Professions Code section 5107;
3. Taking such other and further action as deemed necessary and proper.

DATED: November 28, 2006

  
CAROL SIGMANN  
Executive Officer  
California Board of Accountancy  
Department of Consumer Affairs  
State of California  
Complainant

03541110-SA2006102798  
Abreu accusation.wpd  
kdh:11/26/06